



April 18, 2017

It is Past Time for Serious Pension Reform in Fairfax County

Most of our residents are in complete disbelief when they learn that Fairfax County offers, and continues to offer, a pre-social security supplement benefit that provides the employee a second County-paid pension benefit equal to social security payments from retirement as early as age 55 until they reach social security age. Add to this the fact that this second pension does little to help attract, retain or rewards employees. Serious pension reform in Fairfax County is past due and it begins, but doesn't end, with elimination of the second pension benefit for new employees.

Other Happenings

- Secure Document Shredding - April 22nd 8 am to 12 noon
- Operation: Medicine Cabinet Cleanout - April 29th 10 am - 2 pm
- 2017 Fairfax County Teen Job Fairs and Resume Workshop - April 29th 11 am - 1 pm

It is Past Time for Serious Pension Reform in Fairfax County

Most of our residents are in complete disbelief when they learn that Fairfax County offers, and continues to offer, a pre-social security supplement benefit - also known as the second pension. Employees that started working for Fairfax County right out of college can retire from the County as early as age 55. In addition to their regular pension benefits, which are more generous than surrounding jurisdictions, County employees get a second pension benefit that provides the employee a County-paid benefit equal to social security payments until they reach social security age. Unlike actual social security payments, which saw no increase last year, the County's second pension recipients receive a guaranteed 3% increase. Serious pension

reform in Fairfax County is past due and it starts with elimination of the second pension benefit for new employees.

Here are just some of the reasons I believe we need to eliminate the pre-social security supplement for new general County and school employees:

- This benefit does not help recruit or retain employees. Compensation plans should be designed to recruit and retain employees - this benefit does neither. The benefit is not valued as much as salary by the employees we are trying to recruit. Because the benefit is not paid unless you retire, it encourages employees to retire earlier.
- Fairfax County is the only jurisdiction in Virginia to offer this benefit.
- It is an expensive benefit that adds 6% to the cost of every payroll dollar. This benefit cost the County \$35M and the school system \$75M in FY 2016.
- The cost of providing this benefit continues to grow and is unsustainable. As people live longer, the cost of providing this benefit continues to grow and continues to crowd out important County and school programs.
- The cost of this benefit is unpredictable. Because this is a defined benefit, poor market returns can significantly increase the cost of the benefit.

As discussed further below, pension reform starts with eliminating the pre-social security supplement, but we must also address the County's retirement plan and the school system's supplemental pension plan (ERFC). This includes changing the retirement age, phasing out the County's DROP program (allows for retirement payments prior to retirement), reducing the high costs of administering the benefit plans, and investigating the conversion to a hybrid plan like the rest of the counties in Virginia have done. I have not addressed several other pension issues including the optimism of the pension return assumptions and the funding level of the pension liability. We need to keep our promises to our current employees, but must move our compensation programs into the 21st century for new employees.

Our hard working County employees and teachers continue to ask for salary increases to get them to market averages. Unfortunately, too many of our compensation dollars are going towards pension benefits which competes with the ability to fund employee and teacher raises and attract high quality candidates for openings. The cost of benefits for County and school employees range from 60% to 80% on top of each payroll dollar, compared to 25 to 35% for most private companies. Growing pension liabilities also compete for funds with the high quality services that our residents expect.

I have been working to address the County's overly generous and unsustainable pension costs since 2010. I spoke about the County and school pension issues repeatedly during the meals tax debate as a prime example of where the County

needs to get spending prioritized and under control. Largely as a result of the meals tax discussions, several of the County's civic associations, business groups and community groups have joined me in the call to reform the County's pension benefit programs.

The goal of these reforms cannot just be to make our pension benefits sustainable and affordable, but to change our total compensation packages so that we can do a better job of attracting, retaining and rewarding a quality workforce. Despite a delay in discussing our pension costs, it appears that the Board is finally prepared to look at pension reform. My hope is that we will implement comprehensive and meaningful reforms.

Comprehensive Pension reform must be more than just eliminating the Pre-Social Security Supplement (Second Pension). Pension reform and compensation plans are complex issues. They start with recognizing that our employees are our greatest asset and are critical to the quality of the services we offer to our citizens. We need to have a compensation plan that attracts, retains and rewards the best employees and teachers while also recognizing that there are financial restraints. It has been clear for some time that we have too many of our compensation dollars going towards pension costs that do not meet these objectives.

The County owes our employees a properly balanced compensation plan. We cannot look at salary, pension, and other benefits in vacuums. I believe Fairfax County and the school system, and their employees and teachers, would get a greater benefit from having those dollars in salary rather than overly generous pension benefits.

In addition to eliminating the pre-social security supplement (second pension), comprehensive pension reform needs to look at the following:

- **Reform and phase out the DROP program.** The DROP program pays employees both their pension benefit (at a guaranteed return of 5%) as well as their salary for up to three years after they reach retirement age. While the second pension encourages employees to retire, the overly generous DROP program pays them to stay for an additional three years. This program needs to be phased out, and at the very least, the returns need to be tied to a realistic market measure.
- **Shift to a defined contribution or hybrid plan.** Fairfax County currently offers the most generous defined benefit plan in the Commonwealth. Private businesses, the federal government, the Commonwealth of Virginia, as well as the other counties in Virginia have converted from defined benefit plans to defined contribution plans (like a 401(k) plan) or hybrid plans. We should look to convert to a hybrid plan for general County employees. Defined contribution programs are portable and are valued by many of today's younger workers.

- **Increase the retirement age.** The retirement age for any defined benefit needs to reflect the reality of life expectancy and work ages of today's workforce. Defined benefit plans (pensions) have become unsustainable as life expectancies have grown. Currently, many employees receive benefits for as long as or longer than are employed at the County. We are quickly approaching the point where we will be paying more retired workers than actively employed workers.
- **Investigate the feasibility of buy outs for some pension liabilities.** While I believe that pension changes should impact only new employees, I do think it makes sense to investigate offering voluntary buyouts of some pension benefits (including the pre-social security supplement) to current employees. These buy outs would be financially advantageous to the County but may provide employees with additional salary to meet their current needs.
- **Address Pension Management Fees and Costs.** The cost of managing the pension plans and the below-market performance of County and school pension returns needs to be reviewed to see if there is a better answer. The school system spends over \$12 million per year in managing its supplemental pension program alone and pays rent on a separate office in Springfield. I believe there is the opportunity for consolidation, significantly reduced administrative costs and better returns that need to be explored.
- **Phase Out the Schools Supplemental Pension Plan (ERFC).** The current version of ERFC pays a supplemental pension for life, while County employees' second pension ends at social security age with guaranteed increases. As a result, a school system employee could actually receive more pension income after they reach social security age than their final average salary. The School Board is actually ahead of the Board of Supervisors in addressing pension costs - unfortunately it appears that the school system's financial staff is not on board with that effort. The School Board asked staff for an estimate of the cost of eliminating the ERFC for new employees going forward and its staff's response was \$70M. Montgomery County was able to eliminate its supplemental pension program with no fiscal impact, so I asked what assumptions school staff used in the calculation. School staff changed four key assumptions, including lowering the assumed return rate by a full percentage, in their calculations. I have asked the school staff for a revised estimate without the changes in assumptions, hopefully prior to the School Board work session on ERFC scheduled for April 24th to provide the School Board an apples to apples comparison.
- **Review the COLAs in ERFC.** Currently the ERFC includes a guaranteed 3% inflation increase (COLA). This provision should be changed to an inflation index or to the same areas social security increases.
- **Board of Supervisors Responsibility for Schools Supplemental Pension Plans.** A constituent brought to my attention a 2014 Attorney General's opinion that clearly states that the Board of Supervisors must approve any

supplemental pension programs or changes and may modify supplemental pension programs because they create a future liability. [View the AG's opinion here.](#) It had always been my belief that the School Board and Board of Supervisors needed to address the pension programs jointly; this Attorney General's opinion makes that even more critical.

How I Would Approach Pension Reform. Pension issues are very complex and are a financial specialty unto themselves. Fortunately, we live in a County that has many experts on pensions and compensation plans. The McLean Citizens Association has called for an independent committee to review the pension issues and I agree. A small committee of several Board of Supervisors members, several School Board members, a number of industry experts supported by a few County and school staff members, and a few representatives from employee groups could come up with some options for the two Boards to consider. The work done in the AON pension study in 2012 would be a starting point, but consultant reports are only as good as the direction they are given. The goal in this case would be clear - a compensation plan that allows us the ability to attract, retain and reward the best employees and teachers in our fiscally constrained environment. The best ideas could be presented to the two Boards for discussion and then analyzed in detail by consultants for final action by the Board. I believe that this could be accomplished in six months.

Pension Reform is Long Overdue. In 2010, I asked the Board to initiate a review of our pension costs. The request was to consider a defined contribution plan (401(k) type) versus the current defined benefit plan (pension). It was as clear then as it is now: we are not getting the recruiting and retention benefits from the unsustainable pension costs. The County hired a consultant (AON) to conduct a review of the County pensions. The review concluded that the plan "for general employees is especially generous when compared with the plans provided in other jurisdictions" and specifically called out the pre-social security supplement (second pension) that encourages early retirement and the DROP program which encourages employees to stay for an additional three years but are both overly generous. [You may view the review here.](#)

Unfortunately, instead of comprehensive pension reform as a result of the study, the Board nibbled around the edges and approved minor changes to increase the retirement age for new employees. This is in part because the County Attorney at that time concluded that we could not switch to a defined contribution or hybrid plan due to the state mandate to provide our employees a benefit based on the state pension benefits. That has changed as the state now offers a hybrid plan.

Last April, during the budget process, I asked the Board to re-examine our pension benefits as a part of budget guidance. I deferred my request, as the review of pensions was promised by the Board in the summer. At the end of the summer, it

was promised in October. In October, we asked staff questions and deferred discussions until January at the Personnel Committee meeting. The January Personnel Committee meeting was canceled. It is a year later and there is no Personnel Committee meeting scheduled to discuss pensions, although there is talk of one in June. This is despite the outcry from our residents during the meals tax discussions and requests from civic, business and community associations. If not included in the budget guidance this year, I will move to amend the budget guidance to have a comprehensive review of pension costs and benefits. We cannot continue to defer the discussions.

Hopefully this time we end up with meaningful pension and compensation plan reform and not a few more nibbles around the edges. We need to keep our promises to our current employees, but must move our compensation programs into the 21st century for new employees.

Secure Document Shredding - April 22nd 8 am to 12 noon

The Fairfax County Solid Waste Management Program will be sponsoring a document shredding event at West Springfield Government Center (6140 Rolling Rd, Springfield, VA) on Saturday, April 22nd for residents of Fairfax County, Fairfax City, and the Towns of Clifton, Herndon, and Vienna. Documents from businesses will not be accepted. Shredding events start at 8 a.m. and conclude at 12 p.m. All cars must be in line by 12 p.m. These are drive-through events and residents will be asked to remain in their vehicles. For everyone's safety, you will not be able to stand by and watch your paper being shredded. For a complete schedule or more information, please [click here](#).

Operation: Medicine Cabinet Cleanout - April 29th 10 am - 2 pm

Every day in Virginia, three people die from opioid overdoses. In Fairfax County, it is about once a week. Many of these deaths start with prescription opioids. 70% of those that abuse prescription drugs obtain them from a relative or friend, typically without their knowledge. Safe handling of unused or expired medication prevents accidental poisoning, protects the environment, and prevents prescription medications from falling into the wrong hands.

"Operation: Medicine Cabinet Cleanout" will be held on Saturday, April 29th from 10 am to 2 pm. Any person may drop off any unused or expired medications at any Fairfax County Police Station where the disposal is free, confidential, and safe. Pills or liquids only, no pressurized canisters or needles.

Operation: Medicine Cabinet Cleanout is sponsored by the Drug Enforcement Agency, the Fairfax County Police Department, and the Unified Prevention Coalition of Fairfax County in partnership with local businesses and in collaboration with the

following Fairfax County government departments: Police, Health, Public and Private Partnerships, Neighborhood and Community Services, Public Works and Environmental Services, and the Fairfax-Falls Church Community Services Board.

[Click here](#) for a listing of Police Stations participating in the operation.

2017 Fairfax County Teen Job Fairs and Resume Workshop April 29th 11- 1

Our teen job fairs at West Springfield, Oakton and Chantilly High Schools attracted over 400 students to each fair and were a big success based on the feedback from the teens and parents leaving the job fair. Our last Teen Job Fair this year will be held Saturday, April 29th from 11 am to 1 pm at South County High School. These job fairs focus on student job seekers looking for full time employment, after-school employment, seasonal positions, internship opportunities, or volunteer experiences. It is open to all teens in Fairfax County looking for employment or wanting tips to build their resumes. Businesses and organizations have the opportunity to showcase their companies, brand their businesses in the local community, and advertise the positions they have available. There is no cost to participate. [Click here to register or for more information.](#)

A huge thank you to the Fairfax County Public Schools and the Connection Newspapers for their help getting the word out about the job fairs. Also, thanks to Chantilly, Oakton, West Springfield, and South County High Schools, Dulles Regional, Greater Springfield, and South Fairfax Chambers, South County Federation, and Supervisors Kathy Smith, Linda Smyth, and Dan Storck for all their work in making these possible.